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What Is Formal Project Management and Who Needs It?

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Introduction

Over the past fifteen years, project management as a profession has migrated from construction and manufacturing into virtually all other business sectors. The pressure for this migration has largely come from the need to control and manage the growth, adoption, and development of information technologies (IT) and, in particular, to improve low success rates for IT projects.

Organizations like the Project Management Institute (PMI) and the (British) Office of Government Commerce (OGC) have developed practice standards that serve to encourage and guide the adoption of project management (PM) practices. This includes PMI's *Project Management Body of Knowledge*® (*PMBOK*®) and OGC's *Projects in Controlled Environments* (*Prince2*®).

The question is, are standards necessary in project management? If they are, when?

In order to discuss the value of PM standards, it is necessary to explain what happens in the absence of these standards as opposed to when rules and regulations are imposed on project management practices.

Definitions

For the purpose of this discussion, I will refer to PM activities in the absence of operating guidelines as "informal" project management. By contrast, project management that takes place within the restrictions of an imposed set of operating guidelines will be referred to as "formal" project management.

Informal PM implies that the planning and execution of projects is undertaken in a way that the project manager thinks is best. By contrast, formal project management implies rules. It implies that there are protocols for every step and stage of planning, oversight and control.

Informal PM is defined as: doing a project however the project manager sees fit, based on his or her experience, training, and judgment.

Anyone can be – and is naturally – an informal project manager. An informal project management environment allows project managers to approach projects in the way they deem appropriate. In these situations, project

management techniques are driven by personal preference and instinct, rather than by defined rules. The emphasis is on getting the work done rather than on procedures.

Formal PM is defined as: completing a project on paper before the actual project begins, creating a detailed plan, and then executing the project according to that plan. In a formal project management environment, the project manager must follow procedures and practices as defined by an imposed standard, such as that of the PMI. These project management techniques are driven by rules. The emphasis is on following the plan.

Of course, there is no clear separation between formal and informal PM. At one extreme there is project management with no rules. At the other extreme is project management wherein rules control everything. For our purposes, we can assume that the more informal the PM environment, the fewer rules and guidelines there are for the project managers to work within. On the other hand, the more formal the PM environment, the greater the restrictions and controls are on every activity and document.

Accounting Analogy

Informal PM is like informal accounting. In a business with an informal accounting system, money is spent by staff and management as they see fit, with only as much planning and analysis involved as they instinctively feel is necessary.

Only small businesses are able to operate with informal accounting controls. Some are successful; most are not.

Formal PM is analogous to running a business with a very rigid accounting system in which every dollar must be budgeted, justified, and tracked. In a formal accounting environment, every employee must follow strict rules regarding the use of funds.

Formal project management is the equivalent of a rigid accounting and control system. It requires that planning and analysis take place in advance of starting work, which leads to the creation of a plan that must be adhered to.

Virtually every large business operates with a rigid accounting and financial control system. The alternative is chaos.

PM Maturation

As organizations become more mature from a project management perspective, they move along the scale from informal toward more formal PM practices. This transition reflects a growing concern over project success rates and awareness that there are better, more advantageous and effective project management practices than the ones that many organizations currently use.

Both the PMI's (*PMBOK*[®]) and OCS's (*Prince2*) systems of project management are standards for formal approaches to PM.

Is All the Fuss and Bother Necessary?

Do formal PM practices save time? Yes and no.

Most people will agree that, for virtually any endeavor, some degree of planning saves time by avoiding wasted effort. The questions are: How much planning is efficient? What kind of planning and by whom?

Critics of formal project management will argue that the standards set up to control projects are not necessarily suitable to the critics' specific project. Therefore, the time spent following externally imposed rules and guidelines is counterproductive.

The critics' argument may be correct in some circumstances. However, there is ample evidence to suggest that most projects operating without rules and guidelines will waste time and money. Perhaps this doesn't always happen, but very often, it does.

Using our earlier analogy comparing PM to accounting controls, how much money would be misspent by an organization if there were little or no controls on spending, versus one in which there were very tight controls? Of which group would you like to be a shareholder?

Controls versus Experience

There is no doubt that some project managers are capable of being effective in an informal PM environment. The problem is that not all project managers are instinctively good managers, and most may never be. Rules and practices imposed by formal project management standards are designed to control the actions of inexperienced and/or bad project managers.

Formal PM imposes optimal management practices on all managers, regardless of skill or experience. The *PMBOK*® and *Prince2*® are compilations of management practices that are meant to avoid project failure, and they represent the accumulated experience of an organization or group, such as the PMI.

Rules may, however, inadvertently hobble some very good, informal project managers who could work well without the rules.

In a similar way, accounting controls are meant to control spending by either dishonest or misinformed staff. The controls may not be necessary for honest, experienced staff members, but must be imposed on everyone.

Time Estimates

Initial duration estimates are almost always higher for projects planned within a formal PM environment rather than an informal environment. Does that mean that formal PM takes more time? No.

Formal project management activities do require time. However, the reason that projects planned in a formal environment appear to take more time than informal ones is that initial duration estimates tend to be more realistic. Informal project management practices lead to low, overly optimistic duration estimates, because projects are typically under-scoped, and complexity is underrated and activities are left out.

Cost

Do formally managed projects cost more than informally managed projects?

Academics will argue that controls save money. Many practitioners will argue that formal PM controls are a waste of time, and therefore, of money. Of course, both points of view are correct, depending on the circumstances.

My experience has been that formal PM saves money by avoiding wasted effort. The savings come from having controls that ensure the right work is done in the right order. Informally managed projects are much more prone to rework and misdirection. They cost more because mistakes are made.

Unless you have a perfect project manager with plenty of relevant experience, it is cheaper to run a project using formal project management practices than without formal rules and procedures. The cost of having controls in place is less than the cost of the problems that will develop if there are no controls. In effect, formalizing project management practices is free. It even saves money.

Risk

Do formal management practices decrease risk?

To answer this question we must first define the term "risk." In order to do this, it is necessary to define "success."

Simply put, project success is satisfied stakeholders. If the people whom the project is meant to serve are happy with the outcomes, then it has been a success.

If success comes from having satisfied stakeholders, then risk can be defined as anything that might threaten the stakeholders' ultimate satisfaction with the project's outcomes.

Do formal PM practices ensure that the initiating stakeholders are satisfied with project outcomes? No. But formal project management helps decrease the risk of an unsatisfactory project outcome.

Formal PM practices help to ensure that projects are managed with respect for what the stakeholder wants, rather than what the project manager or team wants. Formal practices can also help ensure stakeholder involvement and more effective decision-making, but they can never guarantee that stakeholders will be completely satisfied.

Critics of formal PM practices will point out that the increase in stakeholder involvement comes at a high cost. They would say that the costs in terms of restrictions, delays and extra administrative work do not justify the gains in stakeholder satisfaction.

This argument begs the question of who is measuring cost. Inconvenience to a project manager is not necessarily a waste of money. Delays that slow the project but ensure the stakeholders know what is happening cannot be wasted effort. A project manager who believes formal PM rules are holding him or her back is probably unaware that the rules are in place to serve the interests of the stakeholders rather than the convenience of the project manager.

Uncertainty versus Experience

For a given project, the degree of control that is appropriate should be determined on the basis of the relative amounts of uncertainty in relationship to the experience levels of the project team and performing organization.

Informal PM works well when the levels of uncertainty are low relative to the experience of the team. Unfortunately, informal PM opens the door to disaster when uncertainty is high relative to experience.

Figure 1 illustrates the relationship between the uncertainty (risk of failure) and the experience level of the project team. For a given project, as experience increases (right to left) uncertainty decreases. When the team is inexperienced, uncertainty is high.



Figure 1. Uncertainty versus experience.

Figure 2 illustrates the relationship between the significance of a project (its value to the organization) versus the uncertainty (or the potential for stakeholders to be dissatisfied with outcomes).

For a given project, when the significance of the outcome is low, uncertainty is low. When significance is high – that is, when a project is really important to a company – uncertainty rises in proportion to the significance. This is not because the team necessarily knows less about the project, but rather because the importance of their knowledge increases. Errors have a bigger impact.

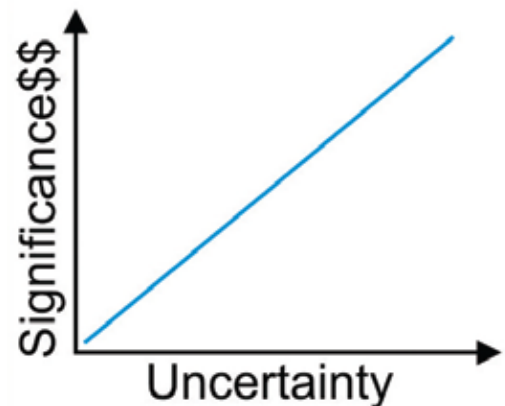


Figure 2. Significance versus uncertainty.

When Is Formal Project Management Appropriate?

When is it appropriate to allow a project to take its natural course rather than to set up rigid guidelines and rules?

The answer depends on the significance and uncertainty involved in the project, relative to the experience of the project manager(s). The choice of whether or not to carefully manage a project is determined based on the cost and importance of the project relative to the risk of failure.

Expensive projects should be managed with more care than less expensive projects. No surprise.

Projects that have strategically important outcomes (higher significance) should be managed more closely than projects with insignificant outcomes. Again, no surprise.

Figure 3 illustrates the relationship between significance, uncertainty, and the relative degree of project management formality. Projects that are strategically important and expensive should be managed with a high degree of project management formality. Projects that are of no strategic value, or that do not cost much, can be managed in a more informal way.

Keep in mind that uncertainty and experience are inversely related. Uncertainty is highest when experience is lowest.



Figure 3. Relative significance, uncertainty, experience and formality.

Stakeholder Perspective

Stakeholders should decide how formal or informal the management of a project needs to be. It is their risk aversion that should drive decisions concerning the rigidity of project controls.

Imagine that you owned a company and that it was your money being invested in a project. How structured would you like the planning and execution to be? How well-informed would you like to be?

The answer depends on how much you trust the team, how skilled you believe they are, and whether or not they have relevant experience and a proven track record.

For an important project, you would want to be closely involved, regardless of their levels of skill and experience. The same is true of senior management within large organizations. They want to be involved in important projects. Stakeholders want to know what is being done, by whom, why, and when. They want rules, reports, and analysis. They want to participate in important decision-making. Formal project management lets them.

Formal PM Is Accounting and Accountability

Why are accounting practices (money controls) so formal? They are critical to minimize the risk of money being badly spent or wasted; to stop people from spending money according to their own set of priorities; and to allow senior management to participate in decision-making.

Formal project management practices perform the same functions as formal accounting practices. They serve the interests of investors (stakeholders) by telling them in advance how their money and resources will be consumed. Formal PM reduces the risk of non-advantageous projects being undertaken and helps to prevent projects from spending money and consuming resources according to unspecified and/or irrelevant priorities.

Formal project management practices do not eliminate risk. Instead, they moderate risk by ensuring that a project is managed on behalf of the stakeholders. Formal project management puts the investors in the driver's seat. Informal project management relegates investors to the role of spectators.

Project Management Uptake

Why isn't formal project management universally adopted? It is because the costs and complications are obvious to people, while the benefits (saved time and money) are less clear. Formal PM must still prove its value to senior management before the rules and regulations necessary for success will be adopted throughout entire organizations.

Rigid accounting systems have only become the norm in the industry since the 1960s. Formal project management practices will become the norm over the next 20 years.

Summary

Formal project management has a lot to offer, but there are costs and a steep learning curve involved. People and organizations resist the transition from informal to formal PM practices because of their mistaken impression that things are working well enough, or that formal procedures will not fix their problems.

It may be true that formal PM will not fix every problem in every organization, but it is incorrect to assume that things are "working well enough." Project success rates, particularly in the IT field, are low. According to the Standish Group's CHAOS report, only 35 percent of software projects begun in 2006 were considered successful. Two-thirds of all software projects were considered "troubled" or complete failures.

The key to formal PM success is this: The right rules, for the right reasons, properly applied. Creating an efficient project management environment means having a system in place to assess

- The relative experience of a team and performing organization,
- The significance of the project to the organization, and
- The relative uncertainty of the project.

These criteria should be used to determine how formal or regulated the management of a project should be.

A question remains as to which standards to use and how to impose them. For this, there is much debate and no simple answer—yet.

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Brian Denis Egan is CEO of a manufacturing company (Book Box Company) and a management consultant. He has written three professional development manuals and numerous white papers on aspects of management science. Since 2000, Brian has been a part-time instructor for Global Knowledge within the Business Training product line.